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Simple Ideas on Wealth Creation, Subramoney Way

[Interview with PV Subramanyam]

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"We do not inherit the earth from our ancestors.
We borrow it from our children."
~ David Brower

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Interview with PV Subramanyam

If there is one person I've known in my life who can most easily and sensibly guide people on wealth as on health, it is PV Subramanyam (or *Subra* as he is popularly known). When he is not advising people on how to manage their financial lives sensibly, you can find him running or cycling long distances.

Subra is a Chartered Accountant by qualification and a financial trainer by profession. He writes frequently on his blog, Subramoney, and has also authored a book on wealth creation called 'Retire Rich Invest Rs 40 a Day'.

Subra believes to make money, you do not need too many ideas. You need simple ideas and discipline. Simple ideas, and many of them, are what he shared recently with me in his interview for Safal Niveshak.

Let me now go straight to what Subra shared with me.

Vishal: What got you started in investing, and how did you begin to learn about the market and investing in general?

Subra: I started in the stock market sometime in 1979 when I was in the XIIth class, at about 17 years of age. My neighbour took me to a friend of his who had just started his broking business. We sat and talked and he talked about the equity market.

My father already had an equity portfolio, so it was not that we were new to equities. He had bought Hindalco in the 1950s and some Tata Motors and L&T were also there. Then, in 1977, when the FERA thing came, and when Reliance came out with its IPO, he already had some kind of a portfolio. And I also had some kind of money in my bank account.

So, I met my friend's friend who was a broker, and started investing. We were a group of friends who were all investing. Thanks to what Warren Buffett calls the 'ovarian lottery', it was my luck that my father shifted to Ghatkopar (a central suburb in Mumbai), and therefore equities. If I were in Matunga (another suburb), I would have all been in bank FDs and that too Indian banks' FDs. Luckily we were in Ghatkopar and my friends were all in equities, and thus I also got into equities.

Vishal: So, is there a massive difference in the investing culture as far as these two suburbs are concerned?

Subra: Oh absolutely! The Tamilian of the 1960s and 70s, especially the Tam-Brahms, always thought that equities were not for them and were only meant for the Gujaratis, Marwaris and Punjabis…but definitely not for the South Indians.

Also, culturally, in my house, none of my cousins were in equities at that time. They would all be in bank FDs or company FDs. My dad was an exception, and therefore I was an exception.

Vishal: Great! Now how did you begin to learn about the market and investing in general?

Subra: My friend was a broker and he continues to be my broker as of today. So it has been a 35 years relationship. He was doing his CA that time, and I also did my CA. We would often get into analyzing companies in the old-fashioned way.

We used to look at free cash flows, and companies that not only were generating FCF, but also paying dividends and investing for growth.

You see, there were companies that grew, but through IPOs. There were companies that earned a lot but did not distribute, and nor did they grow. They threw up a lot of cash but didn't know what to do with that. So we had to find out companies that were growing, knew where to invest, and knew how to share.

Looking for such companies became out forte. But I guess, life was very easy then. We would just pick up an MNC and said, “Oh, this would do well!” So buying a Nestle, Glaxo, or Colgate was very straightforward. It was much simpler.

IPOs were priced low. Rights issues were priced low. I still remember companies coming up with IPOs at Rs 2-3 premium. Today, no company comes with less than Rs 100 premium. So that helped. The fact that there was a discount sale in the market, thanks to CCI, helped.

Then we sat on our stocks, and therefore, we made money.

I don’t think it was a great buying skill. There was no race to buy. You could just go in the market and buy. You could wait Monday to Friday and prices did not change much. So it was not a buyer’s market or a seller’s market. It was a market that was not very crowded, and thus buying was simpler.

So we said, “This is a Tata Group company so it must be good,” or “This is a Murugappa Group company so it must be good.” We bought such businesses and we sat.

Vishal: And sitting made a great difference, right?

Subra: Yes. I think investing is not just about buying or selling. It is more about the ability to sit, knowing that in the future this company would do well.

Like Hero Honda, which I bought in 1985 and held on till 2012-13…till Honda quit and I was not sure whether the Indian management would be as good and honest. This is because in a partnership, both the partners want to be honest with each other, because the other guy is watching. But since it becomes a single owner, then you don't know whether the same level of honesty and integrity would be maintained. But I am happy to say that the company is doing well. But at that stage, I exited very happily, without any regrets.

Vishal: What's the longest duration of holding of any stock in your portfolio?

Subra: I really won't call it my holding. My dad purchased Hindalco in 1957. So that is around 57 years, which is older than me! Then he bought L&T sometime in the 1960s. Then most of his FERA shares like P&G, Glaxo, and Colgate were all bought sometime in 1977.

This was thanks to George Fernandes that these companies were forced to go public, and therefore we hold those shares. Again, like I said, you just had to apply. You put Rs 1,250 and you got Rs 250 worth of shares. That is today worth around Rs 35-40 lac. There is no connection to that IRR that people talk about. But yeah, you required patience.

Vishal: Do you believe such a long buy and hold strategy would work today?

Subra: No, I think there's a problem. The discovery is much faster. People would not let a share like Colgate remain at Rs 90 for too long. The IPO of Colgate was priced at Rs 25, and I think it opened at Rs 60-70 going up to Rs 90. Today, people won't leave it at that level for too long. And IPOs are closed much-much closer to their deserved prices. So, promoters don't leave much on the table for investors.

But I am sure there are stocks that have not captured the market's fancy. But somebody will write about them someday, and people will pick them up and the run up will be faster. So you'll get good returns and you'll get them much faster. So whether you will hold those stocks for 20-25 years, I really don't know.

Vishal: I think that's where the problem lies. People don't want to stay put with stocks for 20-25 years.

Subra: I think media is also to be blamed for this. I have been in mutual funds and equities, and I am very happy with funds that have been criticised by the media for a quarter or two's bad performance. So whether it has been Franklin India Bluechip or HDFC Top 200 fund, for me it has not mattered that they don't do well for two or four quarters.

Take my holding in say HUL and Colgate. There have been many-many long periods of times when it looked like, "Oh God! HUL is going nowhere!" Or there were times when you felt that if you had sold Colgate and bought HUL, you would have got better returns, and sometimes you felt the other way.

This is all fine. This is theory. But today, if I ask my dad whether he is happy with a 27% IRR on Colgate, what is he going to say? He is going to be thrilled about it and I may not even be including dividends in it.

I mean, companies reward you for sitting. So why can't you sit?

Pascal said that all of humanity's problems stem from man's inability to sit quietly in a room alone. It's so true! Just sit tight. Don't do anything and don't play around with your stocks!

But people want some action every day. I have been 35 years in the market and have not done a single F&O deal. I don't think if I am a long term investor, I should be selling for another 25 years. Why should I do an F&O? Why should I do leverage?

I am an old value investor – Have your own money, invest it. Borrowing from someone to invest in stocks, doing arbitrage etc. doesn't work for me.

I don't see this necessary. You do all this to create more wealth, and do what?

It's important that you have your own money, use it, and whatever is left you let that grow.

If my annual expenses are Rs 4 lac, anything above that just keeps getting invested, right? So why should I borrow and invest, and do what? Become richer, and do what?

I can understand leveraging in a business. If you want to grow you business by putting up more offices and factories and projects, leveraging makes sense.

But in an individual portfolio, I don't see any great room for leveraging.

Vishal: I remember reading somewhere in your blog that most people get into troubles in their financial lives because of their inability to say "No". That's truly a widely prevalent problem, right?

Subra: Yeah. My most popular article is one that says – One word that will make you rich.

This article was inspired by another article on Wall Street Journal, in which a doctor with 25 years of experience says, "If a doctor asks you to go for this or that test, don't do it. You don't need to do it, because the risks of the test are greater than the rewards of the test."

So I asked – "Isn't the same thing applicable to financial services?"

All you need is one term insurance, one savings bank account, one index fund, and that's it. Then, anybody comes and tells you buy this and buy that, you just need to say no.

And I see portfolios of people who've put money in 100+ mutual fund schemes without understanding what they are doing. You don't need to do all this! This is bound to give you sub-optimal returns.

Either you be in an index fund or you pick stocks. If you can't pick stocks, be in an index fund. That's fine. Concentrate on your career.

What is your biggest asset? Today when you are 25, your biggest asset is the present value of your future earnings. So that could be say Rs 15 crore for a 25 year old guy. So that's your human capital. That is your biggest asset. The most important thing is to protect it.

How will you protect it? You take term insurance, and you take care of your health. Because if you fall ill, you will eat into that if you are unable to earn for 1-2 years. That is your most important asset – your human capital.

Now, if that asset is in a government job, you're sure it is like a bond fund. Nothing will happen to it. You'll get an indexed pension. So, then your portfolio can be in equities.

But if your human capital is in running a website or courses, things like you and me do, then that is behaving like equities as your earnings might fluctuate. Then your portfolio has to include some bonds.

So if your main income is like equity, you have to have bonds in your portfolio. And if your main income is like a bond, then your portfolio has to be equity.

Vishal: What would you say is one of the most important lessons on money and investing you learned early on?

Subra: It's very important to learn the theories, and it's very important to see how they are working practically.

The worst thing you can do is meet company managements, because their enthusiasm will rub off on you, and you will make mistakes.

Second thing is to see whether the company can really scale it up, or whether it is just being run for passion by one person.

Third, when you are seeing company managements, you must see whether the top executives are friends, or is there a clear distinction between the owner and others, because friends can't run companies. To run a company or a government, you have to be a loner, and you have to be able to catch your marketing head by the neck.

If they're friends and go back-slapping and dining and wining together, they won't answer the tough questions. Performance won't happen. I would rather prefer a dictator who runs a company to an over-democratic manager. Let's face it. I like the Narendra Modi and not the Manmohan Singh style. You cannot take democracy too far.

Vishal: What according to you is the biggest problem why most investors don't succeed in the stock market?

Subra: I think patience. Go back to what Pascal said, people can't sit tight. But look at it this way, you don't need to do anything else than put money in an index fund. Today you have an index fund at 0.15%. Believe me, it matches with the best cost in the world. You can always argue that Vanguard is at 0.02%, but then those volumes have not built up.

So all you do as a kid when you are 23-25 years old, and you can start with say Rs 2,000 per month, just do an SIP in an index fund. You will make money in the long run, as the economy grows and the market rises. Even when the market goes down you will make money as you will get more units. And look at it over a 10-15 years period.

Unfortunately, people cannot do this. I think they watch too much of TV.

Just don't do anything and keep investing in an index fund, and pick up one stock every year after doing some research and studying say 20-30 companies. It's not very difficult to do that.

Vishal: It's good you mentioned about picking stocks, otherwise what I do at Safal Niveshak – teaching people how to pick good stocks – would've been at risk! :-)

Subra: Let me go back to what Field Marshal Sam Manekshaw told Indira Gandhi. This was sometime in June or July of 1970, when Indira Gandhi asked him to attack Bangladesh in September. But Sam Manekshaw said, "Not September, I'll attack only in December."

As usual, Indira Gandhi tried to bulldoze her way, but Sam persisted. And the actual attack happened in 1971. The Indo-Pak war lasted just four days, but I am sure it was not a four-day war. It was more than four months of preparation.

What you are teaching at Safal Niveshak is preparation, not buying. Buying is easy. Just press a button and that stock is bought. But which stock to buy is a four-months job.

When you have a small amount of money, you need to spend a lot of time in learning than in buying. People spend much more time in front of the screen.

You don't need the screen. You can go away to a far-off village, do your research, call a broker, and buy shares. What does it take?

It does not require too much brain to buy. Brain is required in knowing what to buy, which is what you teach.

Vishal: Thanks Subra! Michael Mauboussin, in his book "The Success Equation" writes that much of what we experience in life (and investing) results from a combination of skill and luck. How has been your experience with skill and luck?

Subra: Tremendous amount of luck, I must say. And I completely agree with what Mauboussin says, though I have not read this specific book. Taleb says that we underplay the role of luck.

During 2003-07, you cannot discount the ability to sit. Because in 2003, if you were in the Sensex at 3,000, it would have been very tempting to sell off at 6,000 in a few months thinking that you had already doubled your money.

The ability to sit from 3,000 to 21,000 is not easy.

The question you have to ask everybody that you meet is – Did you sit on your equity portfolio during 2003 to 2007? That's the skill. Can you also call it luck, yes it was luck.

If I were sitting in Dubai or some other place during that time, I wouldn't have even known about this market. Or if I were completely in bank FDs, I would have thought of it as complete madness. So it was luck that I was sitting in the right place. It is skill that I did not jump off the rocket when it went up to 6,000.

Skill is a combination of identifying the right kind of businesses and sitting tight on them. And then it's also about luck. At that point in time, if you needed money, and your money had doubled, you would've happily sold. And what if you needed emergency money, maybe to buy a house, or hospitalization expense? Luckily I did not require the money.

So, not requiring money was luck. Not knowing where else to invest was lack of skill, or lack of understanding the bond market, because that was the time interest rates were going down and bond markets were also doing well. But I did not shift, so that was skill or luck or a combination of both, I do not know.

The story I would like to talk about skill and luck is that of Sachin Tendulkar. There is absolutely no doubt that his success comes from his tremendous attitude towards the game. It is not just skill or luck.

Very clearly, he was lucky that his parents, like typical Maharashtrians did not ask him to stop playing cricket in eighth standard and instead concentrate on Maths and Physics. That is sheer luck that they allowed him to play cricket.

Then, the fact that he was playing in Shivaji Park (a large and centrally-located park in Mumbai) and everybody could see him was luck. If he were playing somewhere in the outskirts of Mumbai or in some small town, nobody would have spotted him at 16. People would have spotted him at 21, like it happened to Mahendra Singh Dhoni. But it wouldn't have happened at 16. So he got spotted then, and that is luck.

He had skill, there is no doubt about it. After that, it was all about his attitude. When he was playing, if he had to reach the practice session at 9 AM, he would reach there at 8.30, finish his warm up and be ready to take strike at 9, and not reach at 9. That was attitude, because after you have Rs 1,000 crore net worth, you need not do it. But he was still doing it.

So I believe it's a combination of skill, luck, and attitude. You need skill, but you also need luck.

Vishal: Yes, and then your attitude creates a lot of good luck for you, right?

Subra: Yeah. And then you also need to have the passion, like in enjoying investing, or cricket, or anything you are doing. And it requires discipline and sitting over boring things.

Like, for lucky people like me, we have benefitted from sitting, and so we know the benefits of sitting.

Now, nobody would come to teach me that this company will take five or more years to perform. Sitting on good stocks is a habit for me. Whether that is good or bad is a different thing. Sometime you have to take a quick decision and get out.

Like, look at this company called Deccan Gold. For the last 10 years I have been hearing that it's a long term story. It is a long term story because we don't know when the gold license will come. If it comes, the stock could be a multi-bagger. But I've been in that stock for 7-8 years and nothing has happened. There is no question of dividends.

Luckily, I have built a margin of safety because I bought it at Rs 6-7. It's around Rs 25 now. So some cushion is there. Till it goes back to Rs 6-7, I don't see a loss of capital. But for the last 4-5 years, it has not done anything.

But I know the day it does something, it could do tremendously, so till there you're waiting. Till then, you can't see incremental returns coming on a quarterly basis. It's not a TCS or Bharti where you can see something happening every quarter. This is a company that is like a seed. We are just waiting for it to grow into a tree.

Vishal: How can an investor improve the quality of his/her decision making?

Subra: It requires a tremendous amount of reading. Unfortunately, most of the literature in investing is related to America, written during the most prosperous period of America, when Americans had the whole world market, they could get all the raw materials literally at whatever prices they wanted, and the whole world was willing to buy whatever they made. They could even export cement.

I am not sure how many of those theories are applicable now. So you have to read what those people say, and know how to adapt them to today.

For example, the most often quoted thing is what Peter Lynch said that if it's a good product and if many people are using it, you should buy that stock. Now, that's wrong!

Peter Lynch said if it's a good product and if many people are buying it, go and pick up the Balance Sheet. He did not suggest to straightaway buy the share. You still need to do research.

For example, Jet Airways gives me fantastic service, but it's bad for shareholders. ITC creates cancer, but it's good for shareholders. So don't go into what is good for the customer will be good for the shareholder, and vice versa.

I am not at all happy with prices of HUL's products. But I'm happy as a shareholder. So don't get confused.

So yes, a lot of reading, lot of understanding, lot of adapting, understanding things like corporate governance, and seeing what really works, helps.

There are extremely well-run owner-managed companies. There are reasonably well-run MNCs. There are reasonably well-run Indian companies that are professionally run. There are well-run PSUs. You have all these combinations. So, there are no easy rules to follow. You have to see what works for you at that point in time.

What worked for me in the last 20 years will not work for me in the next 20 years. And my portfolio is going to look very different in 2034, than it is in 2014.

Vishal: Yeah, for an individual investor, the process and philosophy has to be very personal. It should be connected to what kind of a person you are, rather than simply copy-pasting it from someone else.

Subra: You really can't copy-paste. Let me go back to 2003 to 2007 and then 2008-2009. In 2007-08, I was still earning well so it did not matter that my portfolio fell.

Now suppose I am retired and I am say 65 years of age, and the market falls 40% in one year, I have no clue how I will react.

I would have had 20 years more experience, but at 70 I may just panic and worry what if I lose everything. Because I am one of those guys who are generally 85-90% in equities, so when I see a 40% fall in my whole portfolio, there is panic thinking what if I live till 90 and will my money last.

So even a person like me who, by then, knows everything and has seen everything, I have no clue how I will react. So, your own reaction is very important apart from what you learn from the market.

You thus have to have an individual process and philosophy, and know your own biases.

For example, I am extremely biased against companies from many cities. For me, a company has to be from Mumbai, Chennai, Pune, and that's about all.

I generally don't like companies from Delhi. I hate companies from Hyderabad. I just don't touch them. Philosophically, it doesn't matter. I lost money in Jupiter Biosciences by breaking my rule of Hyderabad companies. That was the last time I lost money there.

After that I will never touch, say a GMR, because it's from Hyderabad. You may call it my bias.

If I am a fund manager and I make such a statement, I'll be killed. I cannot afford to have such a bias. But personally, I have this bias.

I look at the business and the promoter. I am so much people-driven. I look at the numbers only after I am convinced about the people. And that's a hard learning, because there were times when I was looking at the numbers and not looking at the people.

Vishal: Looking at people is what most people don't want to do because it cannot be easily quantified and thus not readily 'available'. They would make their decisions going entirely by what numbers say, while completely ignoring the quality of people behind those numbers.

Subra: True. It should be a combination of both. You cannot get carried away by just one of them – numbers or management.

Remember one thing – when you are meeting a management, the management is completely ready to meet you. So they intimidate you right from the breakfast to the quality of hotel they take you to, and the way they talk. They want to give you a feeling that everything is fine, and they want to draw personal connections between them and you. And they try to hide the most important things, which is fair enough.

This is what I would also do looking at a venture capitalist or an auditor. I am not going to tell him the bad things about me. But I realise as an investor, that is visible in the numbers. That is visible in the notes to accounts.

And then, talking about the company with the people who are not in the management is far more useful than just number crunching.

Vishal: What are the 2-3 big mistakes that have characterized your investment life? What lessons did you learn from the same?

Subra: Funnily, all my mistakes are one – trusting people who are not trustworthy. I will not call them fraudsters. I will call them incompetent. And I thought they were competent because they were known people, and friends.

For example, I got close to bankruptcy when I was 32 years of age, because my broker defaulted. And I remember one employee of the brokerage firm saying, "Subra, you never take risks. But you took this biggest risk of all!" Like I will never do an F&O, or a badla, or things like these. And I was taking a risk on my broker, and my broker defaulted.

I used all kind of support, from police to political, but that guy didn't just pay. But I paid up for my clients. So that was horrible mistake which was all about trusting the wrong person.

Anyways, these mistakes of trusting wrong people helped me in a good way – I did not get carried away by any of these booms, like the tech boom, and the real estate boom.

One example to give is that of DLF. When DLF was at Rs 1,200, one broker told me that the stock was worth buying. I had no clue whether it was worth buying, but I knew it was Delhi based company so the negative bias was already there.

I was already anti-real estate. I never liked real estate even during my audit days, because you never knew whether what the management was saying was true or false. So whether it was a construction or real estate company, I never trusted the balance sheets.

At that time, I talked to one young analyst who was tracking DLF and asked his view. He said that a digit was extra in the stock's price. It was worthy of buying not at Rs 1,200 but at Rs 200. I asked why, and he directed me to the company's notes to accounts in the annual report.

I read them and instantly realized that there was too much that was not being revealed. In real estate, you can just pay an advance to somebody and claim that is your land. You only realize this somewhere hidden in the notes that the possession has not yet come. But you have to read so much in the notes that I just thought of avoiding them.

And Satyam I avoided because it was referred to me by a broker who I did not trust.

Vishal: **So what you are saying is that it is important to avoid the wrong kind of people then to go about selecting the right ones. Is that right?**

Subra: Yes. You look at Rahul Dravid. He did not play any great cricket strokes. You will never remember him for the rest of his life for his cover drives or hooks or pulls. But you'd remember him for one thing. He knew where his off-stump was.

So, if you know how to manage risk, you'll make money. Let's accept it. Warren Buffett is a function of compounding, keeping risk away. So you keep risk away and let compounding work. Even at 12-14%, you'll create wealth. You don't need 26%. If 'n' (the duration) is long enough, you create wealth.

Tatas and Birlas are all a function of huge amount of money and huge amount of 'n', which is what long term compounding is all about.

Vishal: True. Now moving on from investing onto life, you are an avid runner and a cyclist. What parallels do you draw between investing and endurance sports?

Subra: They are similar. Endurance sports are like investing. You will do short spurts. Like at the end, when you have just 500 metres to cover, you will do spurts. But you cannot spurt for 42 km, which is a marathon. You cannot spurt for 21 km.

You build endurance and you build strength over the long term.

So, when you see a road going down, you should be very happy that it requires less energy. But at the same time, your super ego will tell you that you have to turn and come back to the same place.

In fact, I like cooking, running, and investing, and I believe all three are the same things. You have to get the basic ingredients right. And it is about maintaining your health.

What compounding will you get if you start at 25 and die at 45?

Everybody talks of Buffett but nobody talks of the fact that a large part of his wealth was created after his age of 50. So, he's getting the benefits of compounding because he's 80+. Yes he has created wealth, there is no doubt about it. But see how much of it is because of 'n' and how much of it is because of 'r' (rate of return).

‘N’ is a very important thing and for ‘n’ to be important, you need to have good health. You must be alive to benefit from compounding. Maybe your kids will benefit from your compounding, but for you to benefit from your compounding, you must have the ability to see your money grow and spend it in the future. It comes only if your health is good enough.

At 70, if you want to spend and your body won’t listen to you, what’s the use of money? You are then only going to see your grand children blow it away! So looking after your health is very important.

Now, I believe that in any of these – running, cycling, investing, and even cooking – you must have an interest if you want to do it well. For example, let’s assume that you are the head of pharmaceutical research at a company and these numbers don’t interest you, or you don’t want to pick stocks or do any such thing. Then, you are fine and better off being in an index fund.

But if you are interested and you enjoy doing this – like you enjoy reading annual reports etc. – then you should do it. So, if you are interested, learn and then start investing.

You have to enjoy it. You have to completely enjoy it, which is true for anything you do. Otherwise why will you do it for so long?

I am sure Sachin Tendulkar played cricket for so long because he was enjoying it, and not because of the money he made. He made money long ago, but he still continued for a long time.

Vishal: He was enjoying the process.

Subra: Yeah, it's all about enjoying the process. For example, it's easy for me to pay someone money to drop me in a helicopter on the top of Mt. Everest. I can take a photograph of mine with the Indian flag, and tell the whole world about it.

But in my heart I know that I did not do anything! The effort of going through the training and the climb is not there. It takes 3 years of rigorous training to be able to climb the Himalayas.

So you need to keep going through the grind, and keep your body in good shape to be able to do that. If you don't enjoy this process, then don't do it. What are you trying to prove?

Vishal: Would you train to climb the Everest some day?

Subra: I don't have time on my side. Thirty-five is a good age to start preparing for it, not fifty-five.

Vishal: When did you start running etc. on a regular basis?

Subra: Around eight years ago. I started as a complete novice. I did not know what clothes to wear, or any of the keywords like hydration etc. I would just fill up the form for the Mumbai marathon and just go there. I would have been happier if my application would have got rejected also. To me, it didn't matter. But that time it was not so crowded so anybody could go. So I registered and went. That was the only day of the year I ran 21 km, and without any practice.

I thought it was a major achievement in life that I could complete 21 km in about three hours.

About 4-5 years ago, we formed a group that now has around 1,500 members, and even you are a part of that group. Here, we have people across all age groups. The oldest I believe is 70 years of age, and he does a half marathon in about 2 hours. So he's an inspiration to most of us. For many people, he is slightly older than their fathers.

Running in this motley group of people across ages has helped me improve as a runner. When somebody is running slightly faster than you, you are inspired by that person's speed. The best thing is that here you are not talking about the P/E ratio etc., which you are doing throughout the day. So this is a very refreshing kind of a group.

Now, when others are running with you, you are not looking at your watch or phone to check your pace. You just see the other guy running faster than you, and thus you want to also run faster. So there's a slight element of competition and guilt. You just wish you had started running earlier. That combination propels you to run faster and better.

Like over the past four years, I have cut down my time from 2 hours 30 minutes to complete a half marathon (21 km) to 2 hours 5 minutes. The improvement going further can't be so good in absolute terms, but I'm sure I'm only going to improve.

So it gives you a pleasure, not because you are improving vis-a-vis others, but you are improving vis-a-vis your own performance of the previous years.

Vishal: That also matters in investing, right?

Subra: Yes. It gives you a pleasure when you press the accelerator and the car moves. You are putting an action and you are seeing the result. When you see that, you feel happy because you believe your strategy and execution have both been right. This is true in investing.

Vishal: What was the best piece of investment advice you ever received?

Subra: This is something very difficult for an old person like me to think of because too many people have got into my head.

So, now if I hear someone say something, I tell myself, “Oh, I have read this before.”

But still, if I can share the best piece of advice I ever received, it was about keeping things simple. You don’t need to do very complicated things.

Now, keeping things simple is not easy, because activity looks more attractive. Buying in the morning, selling by evening, earning a few percentage points and cashing out etc. looks far more attractive. But being able to sit is very-very important.

I guess, for me, it’s also been due to getting a very good broker at a very young age. I was just 17 and whatever my broker said I would listen to him. Now it is a great relationship built over the last 35 years. He was never greedy and thus I spent a lot of time just sitting on the shares I had bought. I think that helped me tremendously.

Overall, a lot of conversations with him have helped. Then of course, reading Buffett, reading Burton Malkiel (A Random Walk Down Wall Street), Taleb, etc. have helped me a lot.

I think the most important thing is knowing you cannot predict. For example, you find a mother telling her child that he/she must take an umbrella because it rained a lot the previous day. Now, if it rained yesterday does not mean it will rain today as well.

But then we would continue to go by the immediate past, and predict the future. Knowing that this does not work has helped me a lot.

Vishal: What was the worst piece of investment advice you ever received?

Subra: I don't get this as a personal advice, but whenever I do my investment awareness programs, I find that people largely treat equity as a temporary thing. They would say, "You go to equity, make money, and then come back to real assets like gold and real estate."

To me, real estate is not an investment. To me, gold is not an investment. You need a house, you buy a house. Like you need a shirt and but a shirt, but it's not an investment. A car is not an investment. You need to use it and you buy it.

So such an advice like real estate and gold will give better returns than equities is what I find bad. Luckily for me, these have never come as an advice because I never took it.

I guess you get good returns with your brain. I have seen people making money in all asset classes, not because of the asset class but because of the brain then have. The asset is just a tool.

Vishal: What's your view on gold as an asset class? How much allocation one should have of the yellow metal?

Subra: People keep on saying that gold has no value but unless you outperform gold, you have no right to say it. For example, when Warren Buffett says gold has no value, he makes sense because he has outperformed it. But a fund manager who is underperforming gold and says it has not value is in trouble, because he would have to answer his investors on why he is underperforming gold.

So, there will be points in time when gold will do well, like when there's uncertainty in the market, or due to geo-political reasons, but if you're an optimist, you've to assume that these kinds of skirmishes will not be much. So, over long periods of sustained development, I don't see gold having a great place in your portfolio.

But let's face it. If you were in Kuwait in 1980, or in Pakistan in 1947, and you had to run away from your house, the only thing you could've carried is gold. To such people, gold has tremendous value.

But in a demat form, in an ETF form, you can put a small percentage to keep yourself happy. Otherwise, gold is just an expense. If your wife needs gold for wearing, that's an expense. Of course you can use it in an emergency, but how many of us look at gold as an emergency fund?

For a person in the 25-40 years of age, around 10% should be in debt which should also include gold.

Vishal: What qualities should an investor, who does not want to go it all alone, look at in a financial advisor? What are the most important questions he/she must ask before signing up with an advisor?

Subra: This is s very small question with a very long answer. There is no single qualification that allows you to think this guy is good or bad. Today you have doctors who are doing financial planning, you have engineers who're doing it, you have CFPs and CFAs and everybody doing it.

Look at a financial planner with some experience. You don't want to look at someone with no experience. Look at how many clients he has and what is the range of clients he has. Does he have very rich people or very poor people or people like you, or does he have complicated clients – somebody who's had a divorce, somebody who's had children from the first marriage, or whose parents had a divorce, somebody who dies young without insurance or with insurance.

If he has got this rainbow of clients, it means he has at least gone through the process of thinking. Now, if he typically has all salaried employees working in IT companies and aged around 35 years, he cannot think of these complications. He may not even advise you to make a will. That kind of thing will not help.

So, his experience matters. His knowledge matters. And his integrity matters. If you don't know how he's being compensated, understand that you are compensating him.

So, separate the advisor from the investment. You go to him and say, "I will spend one hour with you and pay Rs 5,000." And then you go and invest somewhere else, because then I think you will get more honest advise.

Don't go to a doctor-cum-chemist. Go to a doctor separately and a chemist separately. Or you go to a doctor-cum-chemist provided he is older, has more experience, and he is transparent. You need to understand what he is doing.

Remember that he will be compensated on the assets he accumulates not on how you do. But that's fine because there is no reason to assume that your financial planner is a fund manager. He is not! You or your daughter are as capable of finding the next best fund as your financial advisor. His probability is not higher.

The process of selecting a financial planner is so complicated – you have to know so much – that by that time you can learn and do it all by yourself.

But a good financial planner can bring discipline in your life. He can help you plan better. Good financial planning is a combination of your ability to understand, his ability to communicate, and your ability to gel well together.

If you have these combinations, it works, or it doesn't work.

One financial planner in one investment can cause you so much damage that all the alpha that you think he has created for you will be lost. I know people who lost Rs 15-20 lac in the NSEL fraud, which meant all the alpha their advisors had helped them create over the last 10-15 years was wiped out in one transaction.

Often we do not even know why we need a financial planner. You have a stomach ache and you go to a doctor, but you don't even know why you should go to a financial planner. When you go to a planner, you don't know what you want. He also doesn't know what you want. So, it's a very difficult relationship to start.

The worst thing about going to a financial planner is that you think you're in very safe hands, and that you're doing well. But actually it turns out that you're not doing so well, and you're getting sub-optimal returns.

You don't know how to monitor what he's doing and you don't know how to calculate the returns you're getting in a fund. So, if the weighted average return on your portfolio is less than the index, or it is less than the inflation that is affecting you, the financial planner has not played his role. You might've as well be in the index.

Now the problem with this advice – put money in an index fund, take term insurance, get one credit card and one savings bank account – is that why should somebody pay an advisor Rs 25,000 for this?

Believe me, this is brilliant advice! But the advisor will never get paid for it. So he will ask you to do F&O, invest here and there and everywhere – he needs to create all those complications to make money. It's a very funny situation.

And by the time you realize the value of a good financial planner, you're already fifty or sixty.

Vishal: What's your two-minute advice to a young person on how he/she can become a smarter decision maker as far as his investment life is concerned?

Subra: If I were to use just one word for it, it would be – Start!

People wait. In running or investing, the advice is the same – To start, start. Don't keep waiting to find the best advisor or best fund. Please make a beginning and see where you are going. Write down what you want in life out of your investments.

Maintain an investment diary, and an investment philosophy statement. Once you do these things, things will fall in place.

But for heaven's sake, start. Don't wait.

Vishal: What are your top three suggestions for investing and related books/resources?

Subra: Read Burton Malkiel's A Random Walk Down Wall Street.

Then, read Nassim Taleb's Fooled by Randomness. Read on behavioural finance that can include Parag Parikh's book. If you're not from an accounting background, learn accounting.

Read about history of how people have invested. That has not changed at all! Whether it was the Tulip mania of 1600s or the ULIP mania of 2000s, the same things happen again and again. People just believe they can get sensational returns. So read from history. Peter Bernstein's Capital Ideas is a good book to read.

All these are American books. So you need to understand how much of that will be applicable to India and how to adapt. And then read annual reports.

Set for yourself a target like you should read 30 pages a day, which doesn't look very difficult. Then read, and read everything.

Vishal: You inspire so many. Who inspires you?

Subra: The person who has really inspired me is Jagadguru Shankaracharya. Once he was asked “You are a leader of a few people based in South India. Why do you call yourself a Jagadguru (teacher of the world)? He smiled and said, “Jagadguru means that the jagad (world) is my guru (teacher). I learn from everybody.”

One more person who inspires me is Mahatma Gandhi. It was him who said things that are so unique that nobody else has ever said them.

He first talked about “choosing your problems.” Normally we think our problems come to us and we don’t choose them. That’s not true. We choose which problems to address first. Should I address my stomach ache or should I address my meeting with the viceroy? I’m sure that he chose the viceroy meeting was more important and he ignored his stomach ache.

Then, he said “I’m rich by the things I can live without.”

Then, he said that you should be ashamed to say you’re not well. Ask yourself what you did to your body that you’re not well.

There I’ve been lucky. I’ve found a doctor who has kept me away from medicines for the last 30+ years. I’ve not touched any medicine.

So, I think your health and your wealth depends on the quality of advice you get. I've not changed my broker, and I've not changed my doctor for about 30-40 years. I've not even changed my fund managers.

Narendra Modi also inspires me. Look at his energy. He has tremendous discipline.

Vishal: Great Subra! That's all from my side. Thank you so much for being the inspiration that you are!

Subra: Thanks Vishal!

About Safal Niveshak

Safal Niveshak (Hindi phrase for 'successful investor') is a movement to help you, the small investor, become intelligent, independent, and successful in your stock market investing decisions. It's about a new way of thinking about investing that can unleash the smart investor within you, and lead you to prosperity and financial peace of mind.

Who Writes Safal Niveshak?

Safal Niveshak is written by **Vishal Khandelwal**.
You can find me on **Facebook** and **Twitter**.

Vishal has 11+ years experience as a stock market analyst and investor, and 3+ years as an investing coach. Through Safal Niveshak, he tries to help small investors become smart, independent, and successful in their stock market investing.

Safal Niveshak, which started in 2011, is now a community of 12,000+ dedicated readers, and was recently ranked among the best value investing blogs worldwide.

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